

Message Text

LIMITED OFFICIAL USE

PAGE 01 HELSIN 02272 180818Z

10

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 COME-00 AID-05 CIAE-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 H-02 PA-01 PRS-01 /094 W

----- 034317

R 180635Z OCT 75

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 9267

INFO AMEMBASSY COPENHAGEN

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

LIMITED OFFICIAL USE HELSINKI 2272

E.O. 11652: N/A

TAGS: ECON, ETRD, FI

SUBJECT: BANK OF FINLAND TIGHTENS DOMESTIC CREDIT AND WILL REDUCE
BORROWING ABROAD

REF: HELSINKI 2128

1. SUMMARY: EXPERTS GOVERNMENT HAS YET FORMULATED CLEAR
ECONOMIC PROGRAM. BUDGET PROPOSAL LAID BEFORE NEWLY-
ELECTED PARLIAMENT IS A TIGHT ONE, BUT PROBABLY NOT NEARLY
TIGHT ENOUGH TO BY ITSELF CUT BACK THE INFLATION RATE
ADEQUATELY AND TO IMPROVE THE TRADE BALANCE SHARPLY. MAJOR
WEAPON IN FINLAND'S FIGHT AGAINST CHRONIC TRADE DEFICITS
AND INFLATION REMAINS TIGHT MONETARY POLICY PURSUED BY
BANK OF FINLAND UNDER DIRECTION OF BANK GOVERNOR MAUNO
KOVISTO (REFTEL).

2. BANK OF FINLAND HAS GIVEN ADDITIONAL CREDIT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 HELSIN 02272 180818Z

GUIDELANES TO MONETARY INSTITUTIONS. KOIVISTO STRESSED

IN TALK TO FINNISH BANKING ASSOCIATION ON OCT 15
THAT THE CENTRAL BANK WILL CONTINUE TO TIGHTEN MONEY
MARKETS, AND THAT "AS FAR AS THE EYE CAN SEE, THERE
WILL BE NO RETURN TO THE PRESENT PERIOD OF HIGH
INVESTMENT." BANK OF FINLAND INTENDS TO FOLLOW
TIGHT MONETARY POLICY EVEN IN EVENTUAL PERIOD OF
RECOVERY.

3. UNDER BANK OF FINLAND CREDIT GUIDELINES, PERMITS
TO IMPORT FOREIGN CAPITAL WILL BE SHARPLY REDUCED.
CAPITAL WILL BE IMPORTED FROM ABROAD ONLY TO FINANCE THOSE
INVESTMENTS WHICH WILL IMPROVE THE BALANCE OF TRADE. PRIORITY WILL
BE GIVEN TO THOSE INDUSTRIES WHOSE PRODUCTS HAVE A GOOD
DEMAND PROSPECTS. (THIS NO DOUBT INCLUDES FOREST
INDUSTRY EVEN THOUGH DEMAND AT PRESENT IS WEAK).
CREDIT RESTRICTIONS WILL BE PLACED ON (1) FINANCING
OF IMPORT INVENTORIES. (2) INVESTMENTS WHICH ARE RELATED
TO THE EXPANSION OF SERVICE ACTIVITIES, (3)
NON-PRODUCTIVE COMMUNAL INVESTMENTS AND (4) DURABLE
CONSUMER GOODS.

4. NO NEW LIQUIDITY WILL BE DERIVED FROM RETURN OF
IMPORT DEPOSITS WHICH HAS NOW BEGUN. BANK OF FINLAND
WILL REDUCE CENTRAL BANK LOAN QUOTAS FOR COMMERCIAL
BANKS AT SAME RATE AS SIX-MONTH IMPORT DEPOSITS ARE
RETURNED TO IMPORTERS.

5. CENTRAL BANK WILL BEGIN TO SUPERVISE MORE CLOSELY
THE LOAN POLICIES OF MONETARY INSTITUTIONS. IN ITS
SELECTIVE CREDIT POLICIES. BANK OF FINLAND HAS ASKED
THE BANKS TO PREPARE SIX-MONTH CREDIT PROGRAM IN WHICH
CASH-FLOW STATEMENTS FOR PARTICULAR INVESTMENT
PROJECTS ARE PRESENTED.

6 CENTRAL BANK TIGHTENING OF MONEY MARKETS HAS ALREADY
CAUSED ONE HOUR PROTEST STRIKE BY COMMUNIST-LED
FINNISH CONSTRUCTION WORKERS' UNION.

7. COMMENT: BECAUSE OF THE NARROWNESS OF FINNISH
CAPITAL MARKETS, ENTERPRISES IN FINLAND TEND TO BE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 HELSIN 02272 180818Z

MORE DEPENDENT ON BANK LOANS FOR THEIR CAPITAL NEEDS
THAN FIRMS IN MOST OTHER WESTERN COUNTRIES. TIGHT
CREDIT POLICIES OF BANK OF FINLAND WILL PROBABLY
LEAD TO SOME BANKRUPTCIES AS BANKS ARE FORCED TO CALL
IN OUTSTANDING LOANS. INVESTMENT VOLUME IS EXPECTED
TO DECLINE OVERALL IN 1976 BECAUSE OF THE TIGHT MONEY
POLICY. THIS WILL PROBABLY ALSO CAUSE DECLINES IN
BOTH PRODUCTION VOLUME AND EMPLOYMENT (ALTHOUGH THE

PREDICTION IN THE BUDGET PROPOSAL PRESENTED TO
PARLIAMENT LAST WEEK -- BEING REPORTED SEPARATELY --
IS FOR AN INCREASE IN 1976 9* 1.5 PERCENT IN VOLUME
OF GDP, COMPARED TO DECLINE OF 1 PERCENT FOR CURRENT
YEARL).
HOUSTON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, CREDIT PROGRAMS, CREDIT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975HELSIN02272
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750362-0322
From: HELSINKI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751041/aaaabkkl.tel
Line Count: 121
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 HELSINKI 2128
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 28 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 APR 2003 by BoyleJA>; APPROVED <29 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANK OF FINLAND TIGHTENS DOMESTIC CREDIT AND WILL REDUCE BORROWING ABROAD
TAGS: ECON, ETRD, FI
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006